

Message Text

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PAGE 01 BERN 02857 01 OF 02 141324Z
ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 L-03 H-02 ABF-01 AF-10 ARA-14
EA-12 NEA-11 DODE-00 PA-02 /172 W
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R 141155Z JUN 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 6426
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

UNCLAS SECTION 1 OF 2 BERN 2857

USMTN ALSO FOR MISSION
USOECN ALSO FOR EMBASSY
PASS TREAS FRB
EO 11652: NA
TAGS: EFIN, SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK
1. SUMMARY: DOLLAR RATE AGAINST SF ROSE SLIGHTLY
IN NERVOUS MARKET; GOLD PRICE DECLINED IN HECTIC
TRADING. STOCK PRICES ROSE. GOVT EMPHASIZED
CONSERVATIVE ECONOMIC POLICY. BATTELLE HELD
SYMPOSIUM ON "NEW NATIONALISM" AND PROTECTIONISM.
SWISS FOREIGN ASSETS ROSE 5.9 PCT IN 1977. FIRE-
STONE MANAGEMENT OFFERED LABOR NEW SEVERANCE PLAN.
ECONOMIC INDICATORS WERE PUBLISHED ON PRICES AND
WAGES. END SUMMARY.
2. FOREX GOLD:
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PAGE 02 BERN 02857 01 OF 02 141324Z

A) DOLLAR RATE AGAINST SF ROSE ABRUPTLY MON AND
TUES FOLLOWING FORECAST OF REDUCED US TRADE
DEFICIT IN SECOND HALF 1978. HOWEVER, DOLLAR RATE
SUBSEQUENTLY SLIPPED SLIGHTLY AMID CONTINUING
CONCERN ABOUT US INFLATION RATE AND RUMORS OF
POSSIBLE LIFTING OF SWISS CAPITAL IMPORT
RESTRICTIONS, WHICH SNB DENIED. SNB INTERVENED

MODERATELY TO SUPPORT DOLLAR RATE IN NERVOUS MARKET.

B) AGEFI EDITORIAL NOTED TREAS ASST SECY BERGSTEN'S FORECAST FOR DECREASED US TRADE DEFICIT IN LAST HALF 1978. HOWEVER, SAID USG EXPORT AND INVESTMENT PROMOTION EFFORTS WOULD REQUIRE TIME BEFORE HAVING EFFECT OF SLOWING OR STOPPING DOLLAR EXCHANGE RATE DECLINE. NOTED EUROPEAN CURRENCIES WERE UNDER-VALUED AGAINST DOLLAR FOR OVER 20 YEARS UNTIL RECENT ADJUSTMENTS. BELIEVED US AUTHORITIES ARE NOT ENTIRELY DISSATISFIED WITH CURRENT DOLLAR WEAKNESS AGAINST SF AND DM.

C) GOLD PRICE DECLINED ABRUPTLY FROM \$185 PER OUNCE PREVIOUS WEEK IN HECTIC MARKET DOMINATED BY ALTERNATE SPECULATIVE BUYING AND SELLING SURGES THAT CAUSED ABRUPT PRICE SWINGS. IMF GOLD SALE AND SPECULATION ABOUT US GOLD SALES FOR FOREX ALSO HELPED HOLD PRICE DOWN. RATES FOLLOW:

	6/5 (OPEN)	6/9 (CLOSE)
SPOT DOLLAR	1.8750	1.9022
FORWARD DISCOUNTS		
(PCT PER ANNUM)		
1 MONTH	6.88	6.81
2 MONTHS	6.76	6.97

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PAGE 03 BERN 02857 01 OF 02 141324Z

3 MONTHS	6.73	6.75
6 MONTHS	6.72	6.76
12 MONTHS	6.34	6.33
SF/DM	90.38	91.02
GOLD	182.25	181.25

3. CAPITAL & MONEY MARKETS: STOCK PRICES ROSE SLIGHTLY IN LARGE TURNOVER; SKA SHARE INDEX CLIMBED 2.3 PCT TO 249.9. SOME BANKERS BELIEVE SNB MIGHT LIFT RESTRICTIONS ON CAPITAL INFLOWS BY END SUMMER. SNB MOVED TO REDUCE MARKET LIQUIDITY; SNB FOREX HOLDINGS DECLINED SF 64 MILLION, GIRO ACCTS FELL SF 1.4 BILLION. AVERAGE YIELD CONFEDERATION BONDS REMAINED 3.44. UBS WILL BORROW SF 100 MILLION AT 3.5 PCT INTEREST FOR 10 YEARS TO RETIRE OUTSTANDING DEBT YIELDING 6.25 PCT INTEREST. CANON INC WILL PRIVATELY BORROW SF 100 MILLION FOR 5 YEARS AT 3.375 PCT INTEREST. BANKERS CONTINUE TO URGE CAUTION FOR SMALL INVESTORS CONSIDERING US STOCK PURCHASES; BUT ADVISE LARGER INVESTORS TO BUY US SHARES FOR ONG -TERM GROWTH.

4. GOVT VIEWS: FED COUNCILOR CHEVALLAZ (FINANCE

MINISTER) TOLD PARLIAMENT HIGH SF EXCHANGE RATE IS LESS IMPORTANT THAN UNCERTAINTY ON FOREX MARKET. SAID SUCCESSFUL SWISS ECONOMIC PERFORMANCE 1977, TO 4.3 PCT GROWTH WITHOUT INFLATION, DUE SWISS RESISTANCE TO ACCEPTING OECD RECOMMENDATION THEY STIMULATE ECONOMY. HAD THEY FOLLOWED OECD PRESCRIPTION, WOULD HAVE SEEN MUCH HIGHER INFLATION RATE, LOWER REAL GROWTH. SAID DISCIPLINE PAID OFF; OTHER COUNTRIES NOW MORE WILLING ENGAGE IN CONCERTED ACTION STABILIZE FOREX MARKETS.

5. NEW PROTECTIONISM:

A) BATTELLE RESEARCH INSTITUTE, GENEVA, HELD SYMPOSIUM ON NEW NATIONALISM AND PROTECTIONISM. SWISS BANKER NICOLAS KRUL SAID PROTECTIONIST
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PAGE 04 BERN 02857 01 OF 02 141324Z

GOVT FINANCIAL RESTRICTIONS HAVE BEEN OVERCOME BY GREATER INTL PRIVATE SECTOR FINANCIAL OPERATIONS; HOWEVER, COSTS CAUSED BY PROTECTIONIST MEASURES HAVE RISEN. BEN COHEN, TUFTS UNIV, SAID US MONETARY POLICY HAS ALWAYS BEEN NATIONALISTIC BUT LESS SO THAN OTHER COUNTRIES. CRITICIZED SURPLUS COUNTRIES FOR FAILING ACCEPT THEIR RESPONSIBILITIES. MORGAN GUARANTY VP DE VRIES

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PAGE 01 BERN 02857 02 OF 02 141324Z
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UNCLAS SECTION 2 OF 2 BERN 2857

STRESSED US DOLLAR EXCHANGE RATE MUST BE PERMITTED TO ADJUST TO ENABLE US CORRECT ITS CURRENT ACCOUNT IMBALANCE; CRITICIZED ARTIFICIAL DOLLAR SUPPORT BY OTHERS. SAID DOLLAR APPRECIATION 1974-75 HAS DISADVANTAGED US EXPORTS. URGED SURPLUS COUNTRIES ADOPT MORE LIBERAL POLICIES; SUGGESTED MORE INTL BORROWING ON TOKYO RATHER THAN NEW YORK MARKET TO HELP CURRENT ACCT ADJUSTMENTS; SUPPORTED US ANTI-INFLATION POLICY.

B) OTTO HIERONYMI OF BATTELLE SAID INTL SYSTEM IS IMPERFECT; MONETARY SYSTEM FAILURE HAS LED TO PROTECTIONIST PRESSURES BUT FEAR OF REPRISALS RESTRAINS GOVTS FROM EXCESSIVE MEASURES; GOVTS TEND ABDICATE RESPONSIBILITY FOR MAINTAINING MONETARY STABILITY , A TREND SUPPORTED BY SOCIALISTS AND MONETARY LIBERALS. ITALIAN ECONOMIST
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PAGE 02 BERN 02857 02 OF 02 141324Z

CIPOLLETTI SAID FLEXIBLE EXCHANGE RATES HAVE LED TO PROTECTIONISM, TRANSFERS PURCHASING POWER FROM WEAK TO STRONG CURRENCY COUNTRIES, WIDENS ECONOMIC DISPARITIES AND INCREASES CONFLICTS OF INTEREST. AMB SOMMARUGA, SWISS DIV OF COMMERCE, SAID EACH COUNTRY MUST DO ITS PART TO MAINTAIN STABILITY; HOPED OECD SUMMIT WOULD RESULT IN NEW CONCERTED STRATEGY FOR RECOVERY.

6. SWISS FOREIGN ASSETS: UNION BANK OF SWITZERLAND STUDY ESTIMATED SWISS FOREIGN ASSETS ROSE TO SF 324.2 BILLION IN 1977, FOREIGN LIABILITIES INCREASED TO SF 153.1 BILLION, BRINGING NET FOREIGN ASSETS UP T O SF 171.1 BILLION. SHORT-TERM 1977 ASSETS INCLUDE SF 76.1 BILLION OF BANKS, SF 1.9 BILLION FOR GOVT AND SF 7.6 BILLION NET BANK TRUST ACCTS. SWISS HOLDINGS OF FOREIGN BANK AND MEDIUM-TERM NOTES INCREASED, BUT VALUE OF FOREIGN STOCK , PARTICULARLY US SHARES, DECLINED BECAUSE OF FOREX FLUCTUATIONS; THEREFORE, SWISS SECURITIES ASSETS ROSE ONLY 6.4 PCT FROM 1976. SWISS FOREIGN INVESTMENT ROSE SF 3 BILLION, CHIEFLY IN US AND WEST GERMANY. DIRECT FOREIGN INVESTMENT IN SWITZERLAND INCREASED SF 700 MILLION, MOSTLY FROM US AND GERMANY, FOLLOWED BY UK , FRANCE AND THE NETHERLANDS. HOWEVER, RETURNS FROM INVESTMENTS ABROAD,

INCLUDING INTEREST PAYMENTS RETURNED TO SWITZERLAND,
CAME TO SF 9.5 BILLION AGAINST SF 3.5 BILLION
OUTFLOW FOR NET CAPITAL EARNINGS OF SF 6 BILLION
IN 1977. TABLE OF ASSETS AND LIABILITIES FOLLOWS:

(IN BILLIONS SF) 1976 1977 PCT CHANGE

A) TOTAL ASSETS: 306.2 324.2 5.9
GOLD, FOREX, ROOSA BONDS 37.6 36.4 -3.2
BANKS,GOVT SHORT TERM 81.6 85.6 4.9
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PAGE 03 BERN 02857 02 OF 02 141324Z

(NET TRUST ACCTS)

BANKS, GOVT LOANS 10.4 13.7 31.7
SECURITIES 114.6 121.9 6.4
DIRECT INVESTMENT 45.5 48.5 6.6
INSURANCE INVESTMENTS 15.0 16.5 0.1
PRIVATE REAL ESTATE 1.5 1.6 6.7

B) TOTAL LIABILITIES 142.5 153.1 7.4
BANKS SHORT TERM 57.3 56.5 -1.4
SECURITIES 55.6 64.6 16.2
DIRECT INVESTMENTS 11.5 12.2 6.0
INSURANCE INVESTMENTS 11.6 12.7 9.5
PRIVATE REAL ESTATE 6.5 7.1 9.2

C) NET ASSETS 163.7 171.1 4.5

7. FIRESTONE: MANAGEMENT OFFERED LABOR IMPROVED
SEPARATION OFFER ON CLOSURE. FIRESTONE ORIGINALLY
OFFERED WORKERS ABOUT SF 3 MILLION COMPENSATION.
NEW OFFER WOULD PROVIDE AVERAGE 2.8 MONTHS WAGES
FOR TOTAL COST OF SF 6.15 MILLION.
8. INDICATORS: WHOLESALE PRICE INDEX ROSE 0.1
PCT IN MAY; WAS 3.7 PCT BELOW END MAY 1977. CONSUMER
PRICE INDEX ALSO ROSE 0.1 PCT IN MAY AND WAS 1.7 PCT
ABOVE END MAY 1977; INDEX OF RENTS INCREASED 0.5
PCT IN LAST 6 MONTHS IN SPITE OF LOWER MORTGAGE
INTEREST RATES BECAUSE OF HIGHER RENTS CHARGED
ON NEWLY RENOVATED APARTMENTS. HOURLY WAGES
ROSE AVERAGE 2.5 PCT IN FIRST QUARTER 1978 COM-
PARED SAME PERIOD 1977 WHILE MONTHLY SALARIES
INCREASED AVERAGE 2.8 PCT, UP 1.4 PCT AND 1.7
PCT RESPECTIVELY IN REAL TERMS. WAGES FOR WOMEN
SHOWED STRONGEST INCREASE. AVERAGE WORK WEEK WAS
44.3 HOURS. WARNER

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